

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: City of Bloomfield Hills, Michigan	County Oakland
Audit Date June 30, 2004	Opinion Date September 10, 2004	Date Accountant Report Submitted To State: November 19, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

# **City of Bloomfield Hills, Michigan**

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## **Financial Report with Supplemental Information June 30, 2004**

# City of Bloomfield Hills, Michigan

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## Contents

<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-9
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12
Statement of Revenue, Expenditures, and Changes in Fund Balances	13
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Fiduciary Fund - Statement of Assets and Liabilities	15
Notes to Financial Statements	16-30
<b>Required Supplemental Information</b>	
Budgetary Comparison Schedule - General Fund	31-32
Notes to Required Supplemental Information	33-34
<b>Other Supplemental Information</b>	
Nonmajor Governmental Funds:	
Combining Balance Sheet	35
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	36



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## Independent Auditor's Report

To the City Commission  
City of Bloomfield Hills, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Bloomfield Hills, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bloomfield Hills, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Bloomfield Hills, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the City Commission  
City of Bloomfield Hills, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bloomfield Hills, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 10, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003. In adopting this statement, the financial statements now include a management's discussion and analysis, government-wide full accrual financial statements, and reorganized fund-based statements. In addition, the governmental funds now accrue a liability for compensated absences only to the extent that they come due for payment prior to year end.

*Plante & Moran, PLLC*

September 10, 2004

Starting with the 2003-2004 fiscal year, the City of Bloomfield Hills will see revised financial statements as a result of the necessary implementation of standards set by the Governmental Accounting Standards Board (GASB). While the intent of these new standards is to provide citizens, taxpayers, customers, and investors with a better understanding of how the City's money and assets are managed, the reality is that the standards have created burdensome requirements for staff and financial statements that are no easier to read and understand than previous financial reports.

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide general information about the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

As a part of the new requirements, the City Manager is required to provide a section entitled management's discussion and analysis (MD&A). This section will attempt to clarify the financial highlights for the 2003-2004 fiscal year. Much like the budget message and year-end budget analysis that have traditionally been provided to you, this section will provide, in part, a repetition of previously provided information and analysis of our operations.

The following is an expanded discussion of concepts touched upon earlier in this analysis and includes this year's financial statement format and information about government-wide financial statements and fund financial statements.

### **Government-wide Financial Statements**

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by the private sector. The statement of net assets includes all of the City's assets and liabilities. One major change that you will likely note is the inclusion of depreciation in the General Fund statement. This will no doubt raise an eyebrow as the new reporting model shows a net asset increase of \$333,512, a decrease from the fund-based statements of \$137,399 due to the inclusion of depreciation.

# City of Bloomfield Hills, Michigan

## Management's Discussion and Analysis (Continued)

**Government Activities** - All of the City's basic services are included here and are commonly referred to as the General Fund. Property taxes, state-shared revenues, and our other revenues comprise this fund. Also included in this category are Major and Local Streets Funds, Budget Stabilization Fund, Drug Enforcement Fund, and Water and Sewer Construction Fund.

### Fund Financial Statements

The fund financial statements provide more detailed information about the City's only fund as a whole. This fund is an accounting tool that the City uses to keep track of specific sources of revenues and expenditures for particular purposes. Some funds are required by State law and bonding requirements. Other funds are established to control and manage money for particular purposes.

The City has the following fund type:

**Governmental Funds** - All of the City's basic services are included in governmental funds, which focus on how cash, and other financial assets that can be converted to cash, flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps the reader determine if there are more or fewer financial resources available to spend in the near future to finance the City's programs. In the annual financial statements, we refer to our funds as the General, General Obligation Debt, and other nonmajor governmental funds.

### Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2004:

- State-shared revenue reductions have been in the forefront of interest in making budget predications over the past few years. State-shared revenues provide the City currently with \$293,757, a reduction of \$35,000 as compared with the 2002-2003 fiscal year. This continues the three-year trend of reduced revenue sharing.
- Property tax and related revenues increased by \$79,596, or 1.4 percent, as compared to the 2002-2003 fiscal year. More than half the increase is attributed to tax penalties and delinquent personal property tax payments (increase in real and personal property tax: \$32,493; delinquent personal property tax: \$11,287; and tax penalties of \$35,816).

# City of Bloomfield Hills, Michigan

## Management's Discussion and Analysis (Continued)

- Total General Fund revenues were \$354,627 over the prior year. This is primarily due to the ending of the library contract with Bloomfield Township and the initiation of a non-resident family reimbursement for library services with the City of Troy at \$200/per, realizing a \$151,000 savings. Additionally, under the heading of other revenues, the City was reimbursed \$185,847 from the Oakland County Environmental Infrastructure Improvement Funds and the positive financial improvement in the operation of the Building Department. Overall, General Fund revenues for the fiscal year were \$92,102 above the amended budget and \$450,051 over the original budget.
- Overall, General Fund net assets increased by \$354,627 over the prior year.
- It should be noted that through the hard work of staff and the City Commission, we have been able to bring our budget in on a generally positive note. This did not come easily, however. It took over \$250,000 in expenditure cuts, the elimination of two full-time Public Safety positions and 2½ positions in the Public Works department to avoid a deficit. The position eliminations added increased work load to the remaining workforce. Had we not seen unbudgeted reimbursements from the Workers' Compensation Fund, the Metro Authority Act, and the sale of fixed assets, we surely would have run a deficit.

### The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

	Governmental Activities	
	2004	2003
<b>Assets</b>		
Current assets	\$ 3.3	\$ 2.9
Noncurrent assets	14.9	15.9
Total assets	18.2	18.8
<b>Liabilities</b>		
Current liabilities	0.3	0.4
Long-term liabilities	7.2	8.0
Total liabilities	7.5	8.4
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	8.2	8.3
Restricted	0.6	0.5
Unrestricted	1.9	1.6
Total net assets	<u>\$ 10.7</u>	<u>\$ 10.4</u>



# City of Bloomfield Hills, Michigan

## Management's Discussion and Analysis (Continued)

The City's combined net assets are 10.7 million as compared to 10.4 million for the prior year. This represents a .028 percent increase.

The bottom of the table shows the changes in net assets during the current year. As this is the first year of implementation for the revised reporting format, comparative data is not supplied in this report. In future reports, comparative data and an appropriate analysis will be provided.

The following table shows the changes of the net assets during the current year (in thousands of dollars):

	Governmental Activities
<b>Revenue</b>	
Program revenue:	
Charges for services	\$ 0.8
Operating grants and contributions	0.3
Capital grants and contributions	
General revenue:	
Property taxes	6.8
State-shared revenue	0.3
Unrestricted investment earnings	
Franchise fees	0.1
Miscellaneous	0.3
Loss on sale of assets	(1.0)
Total revenue	7.6
<b>Program Expenses</b>	
General government	1.8
Public safety	4.0
Public works	1.2
Interest on long-term debt	0.3
Total program expenses	7.3
<b>Change in Net Assets</b>	<b>\$ 0.3</b>

# City of Bloomfield Hills, Michigan

## Management's Discussion and Analysis (Continued)

### Governmental Activities

As you read through the next several paragraphs, it is important to remember that governmental activities not only include the General Fund, but also the general obligation debt and other nonmajor governmental funds account.

The City's governmental revenues totaled \$7.6 million, with the largest revenue source being property taxes. Property taxes represent \$6.8 million of total governmental revenues. This percentage of total revenues has been relatively consistent over the past several fiscal years.

The charges for services category, referred to as "other revenues" in our budget, is a listing of many other smaller revenue sources. Environmental infrastructure improvement funding makes up the majority of the balance in this account.

We have seen building department activity related revenues jump enormously near the end of the fiscal year, corresponding to the new fee structures and housing starts realized during this period.

Finally, the Major and Local Street Funds revenue total \$.3 million and reflect Act 51 funds for our major and local streets. Act 51 funding has been fairly stable over the past three fiscal years. We are unaware of any significant changes at the State level that will negatively affect this revenue in the near future.

Typical to other communities in the area, a heavy reliance on property taxes continues to impact our budget projections. Over recent years, the City's reliance on unrealized double-digit valuation increases, coupled with the limitations on property tax growth due to Proposal A, does not fare well for our future revenue projections. With the implementation of our annual street resurfacing program, contained within our 2004-2005 budget, our residents will see a  $\frac{3}{4}$  mill increase in their property tax bills. Coupled with school and county taxes, taxpaying residents will continue to feel the bite.

Total governmental expenditures for the City totaled \$7.1 million. Revenues exceeded expenditures by \$.4 million. It is difficult for the casual observer to obtain this information from these financial statements due to the inclusion of depreciation. Given this fact, future comparative data will be provided on equal footing with this financial report.

From an overall perspective, even with expenditures growing at a faster pace than revenues, we continue to remain in good financial standing. The budgetary reductions implemented as a part of the 2003-2004 budget impacted the overall operation of the City departments. The previous year's (FY 2002-2003) corrective action plans assisted in putting our financial house in order. Since we are a service provider, the majority of our expenditures are for personnel. Therefore, the only effective way to address significant budgetary shortfalls is through staffing reductions, or conversely, additional service contracting.

# **City of Bloomfield Hills, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Capital Assets and Debt Administration**

At the end of fiscal year 2004, the City has \$14.9 million invested in a wide range of capital assets, including land, buildings, equipment, roads, and water and sewer lines. This is the first time that such reporting has occurred with such specificity and is attributable to GASB 34 requirements.

Debt of \$2.3 million is related to the debt service on storm system and sewer projects (including Evergreen-Farmington, Bloomfield Village CSO, and City of Bloomfield Hills CSO) mainly from the late 1980s, with debts retiring at staggered intervals between 2009 and 2117; \$5.2 million for the Building Authority bonds originating in 1998, maturing in 2008, and \$75,500 owed on the 2003 installment purchase of a dump truck, with that debt maturing in 2007. As of the end of the 2003-2004 fiscal year, the City does not anticipate the issuance of any further debt.

### **General Fund Budgetary Highlights**

Over the course of the fiscal year, the City Administration and City Commission monitor and, if necessary, amend the budget to prevent expenditures in excess of budget as required by the State of Michigan Budget Act.

From a General Fund revenue perspective, the City received more revenue than anticipated through several one-time payments that were not anticipated and for which we will not likely see in the future.

It has been the City's history of monitoring the revenue and expenditures reports on a monthly basis to track the unfolding of each fiscal year. Expenditures have been allowed to grow, provided that the revenues are available to support them. This approach has benefited the City from many different perspectives. It has allowed us to rebuild our financial position, pay for one-time large scale projects with cash, and provided the opportunity for the retooling of our operations.

### **Economic Factors and the Future**

There are several economic factors that will continue to challenge the City. These include State revenue sharing, health insurance, pension costs, our overall millage rate, and state laws limiting the growth in property taxes. The 1978 Headlee Amendment and Proposal A passed in 1993 both limit growth to the rate of inflation. Headlee requires a rollback in the overall millage rate if total property values grow at a rate higher than inflation, and Proposal A limits increases in individual property tax assessments to the rate of inflation.

# **City of Bloomfield Hills, Michigan**

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## **Management's Discussion and Analysis (Continued)**

Because we are a service provider, the majority of our costs are personnel related. As these costs increase, in part as a result of our public safety unions proceeding to Act 312 arbitration, health care cost increases, and general cost increases in our numerous service contracts, we continue to rely on our tax base to maintain services. Unfortunately, when service contracts increase by 3 percent, Act 312 arbitrators allow public safety wages to increase by 3 percent, and health care premiums increasing by double digit figures, our revenue growth will not be able to keep pace.

Other factors that may/will affect our future finances include the final fate of state-shared revenues, the Michigan Department of Environmental Quality's decisions relative to our sanitary sewer system, the future of storm water management, and infrastructure investments.

### **Contacting the City's Financial Management**

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, please contact the City administration at 248.644.1520, and as always you are welcome to visit our website at [www.bloomfieldhillsmi.net](http://www.bloomfieldhillsmi.net)

# City of Bloomfield Hills, Michigan

## Statement of Net Assets June 30, 2004

	Governmental Activities
<b>Assets</b>	
Cash and investments (Note 3)	\$ 2,977,511
Receivables:	
Due from other governmental units	181,352
Other	86,686
Advance to 48th District Court	76,021
Other assets	4,531
Capital assets - Net (Note 4):	
Nondepreciable capital assets	339,638
Depreciable capital assets - Net	<u>14,567,428</u>
Total assets	18,233,167
<b>Liabilities</b>	
Accounts payable	240,142
Accrued and other liabilities	70,714
Noncurrent liabilities (Note 6):	
Due within one year	1,182,551
Due in more than one year	<u>6,048,929</u>
Total liabilities	<u>7,542,336</u>
<b>Net Assets</b>	
Invested in capital assets - Net of related debt	8,143,762
Restricted:	
PEG-related expenditures	62,242
Construction code activity	8,529
Tri-party funds	100,000
Streets and highways	126,777
Drug enforcement	2,594
Debt service	400,903
Capital projects	87,588
Unrestricted	<u>1,758,436</u>
Total net assets	<u><u>\$ 10,690,831</u></u>

# City of Bloomfield Hills, Michigan

## Statement of Activities Year Ended June 30, 2004

	Program Revenues				Governmental
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Activities
					Net (Expense) Revenue and Changes in Net Assets - Primary Government
<b>Functions/Programs</b>					
Primary government -					
Governmental activities:					
General government	\$ 1,770,295	\$ 458,275	\$ -	\$ -	\$ (1,312,020)
Public safety	3,969,311	463,609	6,632	-	(3,499,070)
Public works	1,205,070	32,846	316,947	11,937	(843,340)
Interest on long-term debt	304,459	-	-	-	(304,459)
Total primary government	<u>\$ 7,249,135</u>	<u>\$ 954,730</u>	<u>\$ 323,579</u>	<u>\$ 11,937</u>	(5,958,889)
General revenues:					
Property taxes					5,779,938
State-shared revenues					293,757
Unrestricted investment earnings					39,526
Franchise fees					91,533
Miscellaneous					152,189
Loss on sale of assets					(64,542)
Total general revenues					<u>6,292,401</u>
<b>Change in Net Assets</b>					333,512
<b>Net Assets - Beginning of year</b>					<u>10,357,319</u>
<b>Net Assets - End of year</b>					<u><b>\$ 10,690,831</b></u>

# City of Bloomfield Hills, Michigan

## Governmental Funds Balance Sheet June 30, 2004

	General Fund	General Obligation Debt Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments	\$ 2,399,885	\$ 400,903	\$ 176,723	\$ 2,977,511
Receivables - Other	86,686	-	-	86,686
Due from other funds (Note 5)	-	-	150,000	150,000
Due from other governmental units	127,528	-	53,824	181,352
Advance to 48th District Court	76,021	-	-	76,021
Other assets	4,531	-	-	4,531
Total assets	<u>\$ 2,694,651</u>	<u>\$ 400,903</u>	<u>\$ 380,547</u>	<u>\$ 3,476,101</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 226,554	\$ -	\$ 13,588	\$ 240,142
Accrued and other liabilities	12,196	-	-	12,196
Due to other funds (Note 5)	150,000	-	-	150,000
Deferred revenues	60,923	-	-	60,923
Total liabilities	449,673	-	13,588	463,261
<b>Fund Balances</b>				
Reserved for:				
PEG-related expenditures	62,242	-	-	62,242
Construction code activity	8,529	-	-	8,529
Tri-party funds	100,000	-	-	100,000
Unreserved - Designated for:				
Compensated absences	438,727	-	-	438,727
Fire truck	200,000	-	-	200,000
Unreserved - Reported in:				
General Fund	1,435,480	-	-	1,435,480
Special Revenue Funds	-	-	279,371	279,371
Debt Service Fund	-	400,903	-	400,903
Capital Projects Funds	-	-	87,588	87,588
Total fund balances	<u>2,244,978</u>	<u>400,903</u>	<u>366,959</u>	<u>3,012,840</u>
Total liabilities and fund balances	<u>\$ 2,694,651</u>	<u>\$ 400,903</u>	<u>\$ 380,547</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	14,907,066
Delinquent personal property taxes are expected to be collected over several years, and are not available to pay for current year expenditures	60,923
Accrued interest payable is not due and payable in the current period and is not reported in the funds	(58,518)
Compensated absences are not due and payable in the current period and are not reported in the funds	(438,655)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(6,792,825)
Net assets of governmental activities	<u>\$ 10,690,831</u>

# City of Bloomfield Hills, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	General Fund	General Obligation Debt Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>				
Property taxes	\$ 5,779,938	\$ -	\$ -	\$ 5,779,938
Licenses and permits	375,624	-	11,937	387,561
Federal sources	-	-	1,102	1,102
State sources	304,124	-	316,947	621,071
Charges for services	87,077	-	-	87,077
Fines and forfeitures - District Court	411,567	-	-	411,567
Tap fees	-	-	87,500	87,500
Interest	38,957	400	169	39,526
Other	241,432	-	-	241,432
Total revenue	7,238,719	400	417,655	7,656,774
<b>Expenditures</b>				
General government	1,676,062	-	-	1,676,062
Public safety	3,668,414	-	9,956	3,678,370
Public works	315,689	-	253,611	569,300
Capital expenditures	117,431	-	-	117,431
Debt service	-	1,178,840	-	1,178,840
Total expenditures	5,777,596	1,178,840	263,567	7,220,003
<b>Excess of Revenue Over (Under) Expenditures</b>	1,461,123	(1,178,440)	154,088	436,771
<b>Other Financing Sources (Uses)</b>				
Proceeds from the issuance of long-term debt	-	1,125,000	-	1,125,000
Payment to refunded bond escrow agent	-	(1,090,860)	-	(1,090,860)
Transfers in	78,504	1,185,000	25,000	1,288,504
Transfers out	(1,185,000)	-	(103,504)	(1,288,504)
Total other financing sources (uses)	(1,106,496)	1,219,140	(78,504)	34,140
<b>Net Change in Fund Balances</b>	354,627	40,700	75,584	470,911
<b>Fund Balances - Beginning of year</b>	1,890,351	360,203	291,375	2,541,929
<b>Fund Balances - End of year</b>	<u>\$ 2,244,978</u>	<u>\$ 400,903</u>	<u>\$ 366,959</u>	<u>\$ 3,012,840</u>



# City of Bloomfield Hills, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004**

**Net Change in Fund Balances - Total Governmental Funds** \$ 470,911

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are recorded as capital assets	134,813
Governmental funds allocate the cost of capital assets over their estimated useful lives as depreciation	(1,001,007)
Proceeds from the sale of capital assets reported as revenue in the governmental funds; the statement of activities records a gain or loss, included in the general government expense	(74,127)
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	(32,171)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities, where it reduces long-term debt	911,135
Bond proceeds and payment to bond escrow agent are not reported as financing sources (uses) on the statement of activities	(75,000)
Interest expense is recorded when incurred in the statement of activities	4,106
Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities	<u>(5,148)</u>

**Change in Net Assets of Governmental Activities** \$ 333,512

# City of Bloomfield Hills, Michigan

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## Fiduciary Fund Statement of Assets and Liabilities June 30, 2004

	Trust and Agency Fund
<b>Assets</b>	
Cash and cash equivalents	\$ 246,885
Receivables - Accrued interest	<u>74,006</u>
Total assets	<u><u>\$ 320,891</u></u>
<b>Liabilities - Refundable deposits</b>	<u><u>\$ 320,891</u></u>

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the City of Bloomfield Hills, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Bloomfield Hills, Michigan:

#### **Reporting Entity**

The City of Bloomfield Hills, Michigan is governed by an elected five-member commission. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations.

**Blended Component Unit** - The City's Building Authority is governed by a board that is appointed by the Commission. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. There are currently no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**General Obligation Debt Fund** - The General Obligation Debt Fund is used to account for the annual payment of principal, interest, and expenses in connection with all long-term debt.

Additionally, the City reports the following fund type:

**Agency Fund** - The Agency Fund accounts for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its government-wide financial statements.

#### **Property Tax Revenue**

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2003 tax is levied and collectible on July 1, 2003 and is recognized as revenue in the year ended June 30, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the City totaled \$751 million, on which taxes levied consisted of 7.55 mills for operating purposes. This resulted in \$5.7 million for operating. These amounts are recognized in the General Fund financial statements as tax revenue.

#### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds. All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Advance to 48<sup>th</sup> District Court** - This balance represents payments made to the 48<sup>th</sup> District Court in advance for operations for the next quarter.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Building and improvements	50 years
Machinery, equipment and vehicles	5 to 20 years
Land improvements	20 years
Drain usage rights	50 years
Infrastructure	20 years

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is a liability for half of the unpaid accumulated sick leave since the City has a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide financial statement. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Note 2 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - July 1, 2003		\$	(80,624)
Current year building permit revenue			284,720
Related expenses:			
Direct costs	\$	155,142	
Estimated indirect costs		<u>40,425</u>	<u>195,567</u>
Current year surplus			<u>89,153</u>
Cumulative surplus - June 30, 2004		\$	<u>8,529</u>

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2004

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated six banks for the deposit of its funds. Each financial intermediary, broker, or dealer that holds the City's funds must be provided with a copy of the investment policy and comply with the policy. The investment policy adopted by the Commission in accordance with Public Act 196 of 1997 has authorized investment in all of the above securities. The City's investments are currently in compliance with its investment policy.

The City of Bloomfield Hills, Michigan's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Fund
Cash and cash equivalents	\$ 2,037,309	\$ 246,885
Investments	940,202	-
Total	<u>\$ 2,977,511</u>	<u>\$ 246,885</u>



# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2004

### Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the City is as follows:

	Governmental Activities	Fiduciary Fund
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 2,968,068	\$ 246,885
Petty cash or cash on hand	9,443	-
Total	<u>\$ 2,977,511</u>	<u>\$ 246,885</u>

#### Deposits

The bank balance of the City's deposits is \$3,262,169, of which \$400,000 is covered by federal depository insurance and \$1,921,967 is collateralized by U.S. Treasury securities held by the pledging financial institution's trust department in the City's name. The remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2004

### Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 339,638	\$ -	\$ -	\$ 339,638
Capital assets being depreciated:				
Land improvements	240,500	-	-	240,500
Buildings and improvements	6,656,860	-	-	6,656,860
Machinery, equipment, and vehicles	2,799,803	134,813	(123,900)	2,810,716
Drain usage rights	3,209,940	-	-	3,209,940
Infrastructure	12,317,127	-	-	12,317,127
Subtotal	25,224,230	134,813	(123,900)	25,235,143
Accumulated depreciation:				
Land improvements	66,138	12,025	-	78,163
Buildings and improvements	648,100	132,297	-	780,397
Machinery, equipment, and vehicles	1,796,848	228,402	(49,772)	1,975,478
Drain usage rights	807,580	78,240	-	885,820
Infrastructure	6,397,814	550,043	-	6,947,857
Subtotal	9,716,480	1,001,007	(49,772)	10,667,715
Net capital assets being depreciated	15,507,750	(866,194)	(74,128)	14,567,428
Net capital assets	<u>\$ 15,847,388</u>	<u>\$ (866,194)</u>	<u>\$ (74,128)</u>	<u>\$ 14,907,066</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 123,942
Public safety	244,093
Public works	<u>632,972</u>
Total governmental activities	<u>\$ 1,001,007</u>

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2004

### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Nonmajor governmental fund	General Fund (major fund)	\$ 150,000

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund (major fund)	General Obligation Debt Fund (major fund)	\$ 1,185,000
Nonmajor governmental funds	General Fund (major fund)	78,504
	Nonmajor governmental funds - Local Street Fund	25,000
	Total nonmajor governmental funds	103,504
	Total	\$ 1,288,504

The transfers from the General Fund to the General Obligation Debt Fund represent the use of unrestricted resources to service debt payments, in accordance with budgetary authorizations; the transfer from the Major Streets Fund to the Local Streets Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51. The transfer from the Water and Sewer Construction Fund to the General Fund represents the use of unrestricted resources to help fund operations.

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2004

### Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
General obligation bonds:					
Evergreen-Farmington Bonds:					
Evergreen-Farmington Bonds					
Amount of issue - \$12,500	3.70% -				
Maturing through 2010	4.85%	\$ 6,278	\$ (692)	\$ 5,586	\$ 673
Evergreen-Farmington Amy Relief Sewers					
Amount of issue - \$785,104	4.50% -				
Maturing through 2009	4.60%	375,936	(63,038)	312,898	61,892
Evergreen-Farmington Permanent Meter & Interceptor Rehabilitation					
Amount of issue - \$785,104					
Maturing through 2009	2.31%	52,270	(6,119)	46,151	7,158
Oakland County CSO Drain Bonds:					
Bloomfield Village CSO Drainage Bonds, Series 1994 A					
Amount of issue - \$161,233					
Maturing through 2017	2.00%	115,460	(7,200)	108,260	7,457
Bloomfield Village CSO Drainage District Refunding Bonds, Series 2001A					
Amount of issue - \$141,432					
Maturing through 2017	5.14%	122,661	(6,686)	115,975	7,972
Bloomfield Village CSO Drainage District Refund Bonds, Series 2001B					
Amount of issue - \$468,013					
Maturing through 2017	5.14%	406,298	(18,515)	387,783	18,515
City of Bloomfield Hills CSO Drain Bonds, Series 1994A					
Amount of issue - \$1,300,000					
Maturing through 2017	6.00%	1,100,000	(1,100,000)	-	-
City of Bloomfield Hills CSO Drainage District Drain Refunding Bonds, Series 2003					
Amount of issue - \$1,125,000	1.25% -				
Maturing through 2017	3.38%	-	1,095,000	1,095,000	65,000

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2004

### Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities (Continued)</b>					
State Revolving Fund Loan					
Bloomfield Hills - Michigan State Revolving Loan Fund					
Amount of issue - \$250,000					
Maturing through 2015	2.25%	\$ 145,000	\$ (10,000)	\$ 135,000	\$ 15,000
Building Authority Bonds					
1998 Building Authority Bonds					
Amount of issue - \$7,100,000					
Maturing through 2009	3.75%	5,200,000	(700,000)	4,500,000	800,000
Installment Purchase Obligation					
2003 Installment Purchase Obligation - Dump Truck					
Amount of issue - \$94,418					
Maturing through 2007		75,535	(18,884)	56,651	18,884
Other long-term obligations:					
Employee compensated absences		433,507	5,148	438,655	180,000
Estimated personal property tax multiplier liability (Note 9)		29,521	-	29,521	-
Total governmental activities		<u>\$ 8,062,466</u>	<u>\$ (830,986)</u>	<u>\$ 7,231,480</u>	<u>\$ 1,182,551</u>

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2005	\$ 1,002,551	\$ 223,557	\$ 1,226,108
2006	1,012,990	187,849	1,200,839
2007	1,116,597	149,256	1,265,853
2008	1,116,367	108,517	1,224,884
2009	1,293,955	63,631	1,357,586
2010-2014	803,468	137,125	940,593
2015-2017	417,376	19,901	437,277
Total	<u>\$ 6,763,304</u>	<u>\$ 889,836</u>	<u>\$ 7,653,140</u>

### Note 6 - Long-term Debt (Continued)

**Advance Refundings** - During the year, the City issued \$1,125,000 in Oakland County CSO Drainage bonds with an average interest rate of 2.35 percent. The proceeds of these bonds were used to advance refund \$1,050,000 of outstanding CSO Drain Bonds, Series 1994A bonds. The net proceeds of \$1,090,860 (after payment of \$34,140 in underwriting fees, insurance, and issuance costs) was used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bond. As a result, the bonds are considered defeased and the liability for the bond has been removed from the statement of net assets. The advance refunding reduced total debt service payments over the next five years by approximately \$249,000, which represents an economic gain of approximately \$205,000.

### Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, and participates in the Michigan Municipal Risk Management Authority (MMRMA) state pool for claims related to general liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

### Note 8 - Defined Benefit Pension Plan

**Plan Description** - The City participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City, except for four employees. The MMERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the MMERS. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the MMERS for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 1.7 percent to 5 percent of gross wages.

**Annual Pension Cost** - For the year ended June 30, 2004, the City's annual pension cost of \$661,588 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 investment rate of return, (b) projected salary increases of 4.5 percent to 8.6 percent per year, and (c) the assumption that benefits will increase 2.5 percent per year annually after retirement. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 10 years.

	Fiscal Year Ended June 30		
	2002	2003	2004
Annual pension costs (APC)	\$ 418,037	\$ 449,127	\$ 661,588
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2004

### Note 8 - Defined Benefit Pension Plan (Continued)

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/01	\$ 12,669,224	\$ 17,360,777	\$ (4,691,553)	72.98%	\$ 1,986,863	236.13%
12/31/02	12,774,519	18,209,422	(5,434,903)	70.15%	2,057,400	264.16%
12/31/03	13,409,865	20,012,444	(6,602,579)	67.01%	2,076,283	318.00%

### Note 9 - Personal Property Tax Multipliers

In November 1999, the State Tax Commission approved revised personal property tax tables for utilities. The revised tables affected taxes collected from 1997 to the present due to local units of government continuing to use the personal property tax tables in effect prior to 1999. The issue was the subject of a lawsuit brought by several units of government against the State Tax Commission challenging the constitutionality of the new utility personal property tax tables. In April 2002, the revised tables were upheld by the court.

During 2003, the tax tables were again upheld on appeal. The amounts paid to the City in excess of the approved amounts using the new tables would potentially need to be refunded to the utility companies. This could result in refunds, including interest, of approximately \$29,251 in the governmental funds. Appeals are still being undertaken by taxing authorities. Therefore, the potential refund related to governmental funds has been recorded as a long-term liability on the government-wide statement of net assets at June 30, 2004.

### Note 10 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The City of Bloomfield Hills has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The City has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations



### Note 10 - Accounting and Reporting Change (Continued)

- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets includes infrastructure assets (roads, bridges, etc.) not previously accounted for by the City as well as assets totaling approximately \$13,247,000 that would previously have been reported in the General Fixed Assets Account Group
- Capital assets at July 1, 2003, previously reported in the General Fixed Assets Account Group, have been adjusted by approximately \$1,309,000 to reflect the City's capital assets at that date.
- The governmental activities column includes bonds and other long-term obligations totaling \$8,062,466 previously reported in the General Long-term Debt Account Group.

## **Required Supplemental Information**

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# City of Bloomfield Hills, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Revenue</b>				
<b>Property Taxes</b>				
Real and personal property taxes	\$ 5,668,342	\$ 5,668,342	\$ 5,700,835	\$ 32,493
Delinquent personal property taxes	2,000	2,000	13,287	11,287
Tax penalties	30,000	30,000	65,816	35,816
Total property taxes	5,700,342	5,700,342	5,779,938	79,596
<b>Licenses and Permits</b>				
Building permits	75,000	75,000	183,976	108,976
Electrical, heating, and plumbing permits	36,000	36,000	90,047	54,047
Cable television franchise fee	40,000	40,000	55,231	15,231
Public education and government fees	20,000	20,000	31,561	11,561
Other	850	850	14,809	13,959
Total licenses and permits	171,850	171,850	375,624	203,774
<b>State Sources</b>				
State-shared revenue	328,650	328,650	293,757	(34,893)
Other	5,500	5,500	10,367	4,867
Total State sources	334,150	334,150	304,124	(30,026)
<b>Charges for Services</b>	65,400	65,400	87,077	21,677
<b>Fines and Forfeitures - District Court</b>	446,000	446,000	411,567	(34,433)
<b>Interest</b>	100,000	100,000	38,957	(61,043)
<b>Other Revenue</b>				
Special assessments	5,000	5,000	-	(5,000)
Sale of assets	10,000	10,000	9,585	(415)
Environmental infrastructure	-	15,000	123,175	108,175
Other	46,000	31,000	108,672	77,672
Total other revenue	61,000	61,000	241,432	180,432
<b>Operating Transfers In</b>	195,000	552,679	284,804	(267,875)
Total revenue	7,073,742	7,431,421	7,523,523	92,102

# City of Bloomfield Hills, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b><u>Expenditures</u></b>				
<b>General Government</b>				
City Commission	\$ 500	\$ 500	\$ 1,430	\$ (930)
City manager	83,450	84,450	79,482	4,968
Assessor	50,400	50,400	48,053	2,347
Attorney	120,000	120,000	116,371	3,629
Clerk	11,350	11,350	12,545	(1,195)
Treasurer	71,175	71,675	70,979	696
General administration	658,800	708,360	673,683	34,677
Building and grounds	152,980	152,980	173,527	(20,547)
Building and planning	114,445	114,445	155,142	(40,697)
Engineering	25,000	118,000	269,235	(151,235)
Library	226,460	86,460	75,615	10,845
Total general government	1,514,560	1,518,620	1,676,062	(157,442)
<b>Public Safety</b>	2,860,742	3,209,361	3,254,248	(44,887)
<b>Public Works</b>	558,440	558,440	491,989	66,451
<b>48th District Court</b>	440,000	440,000	414,166	25,834
<b>Capital Outlay</b>	54,500	59,500	117,431	(57,931)
<b>Operating Transfers Out</b>	1,645,500	1,645,500	1,215,000	430,500
Total expenditures	7,073,742	7,431,421	7,168,896	262,525
<b>Excess of Revenue Over Expenditures</b>	-	-	354,627	354,627
<b>Fund Balance - Beginning of year</b>	1,890,351	1,890,351	1,890,351	-
<b>Fund Balance - End of year</b>	<u>\$ 1,890,351</u>	<u>\$ 1,890,351</u>	<u>\$ 2,244,978</u>	<u>\$ 354,627</u>

# City of Bloomfield Hills, Michigan

## Notes to Required Supplemental Information June 30, 2004

### Note 1 - Reconciliation of Budgeted Amounts to Basic Financial Statements

The budgetary comparison schedules for the General and Major Debt Service Funds are presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budgetary comparison schedule to the governmental funds (statement of revenues, expenditures, and changes in fund balances):

	General Fund		General Obligation Debt Fund	
	Total Revenue	Total Expenditures	Total Revenue	Total Expenditures
Amounts per operating statement	\$ 7,238,719	\$ 5,777,596	\$ 400	\$ 1,178,840
Reimbursements of expenditures recorded as operating transfer on budget statement	206,300	176,300	1,185,000	-
Operating transfers budgeted as revenue and expenditures on budget statement	78,504	1,215,000	-	-
Amounts per budget statement	<u>\$ 7,523,523</u>	<u>\$ 7,168,896</u>	<u>\$ 1,185,400</u>	<u>\$ 1,178,840</u>

### Note 2 - Budgetary Information

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)" and reimbursement of expenditure has been recorded as operating transfer in rather than a decrease to related expenditure. All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. During the year, the budget was amended in a legally permissible manner. The City did not budget for the Budget Stabilization and Drug Enforcement Funds.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

# City of Bloomfield Hills, Michigan

## Notes to Required Supplemental Information June 30, 2004

### Note 2 - Budgetary Information (Continued)

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before April 30, the Finance Director/Treasurer and the City Manager prepare a proposed operating budget for the fiscal year commencing July 1 and submit it to the City Commission. The budget must be adopted through a passage of a budget resolution no later than May 31.
2. Public hearings are conducted to obtain citizen comments.
3. The legislative budget is adopted by department and fund on a departmental basis. Line item detail is provided as a general guideline. Throughout the year, the Commission receives the requests to amend the activity budget. All amendments must be approved by a vote of the City Commission. Changes in line items within an activity may be made and approved by the Finance Director/Treasurer.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City of Bloomfield Hills, Michigan incurred expenditures that were significantly in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund:		
Engineering expenditures	\$ 118,000	\$ 269,235
Building and planning expenditures	114,445	155,142
Public safety	3,209,361	3,254,248
Capital outlay	59,500	117,431

Expenditures exceeded budget for engineering expenditures due to additional expenditures related to an Oakland County grant that was available to the City that the City was not aware of when the budget was adopted. The coverage in the General Fund related to building and planning expenditures is due to the City contracting out site plan reviews to an outside firm due to time constraints that was not included in the budget. The overage related to public safety expenditures is due to additional MERS contributions being made by the City related to salary increases resulting from the settlement of public safety employment contracts. The overage related to capital outlay expenditures is due to the City leasing a new backhoe after the budget was adopted.

## **Other Supplemental Information**

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# City of Bloomfield Hills, Michigan

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2004

	Special Revenue Funds				Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
	Major Streets	Local Streets	Budget Stabilization	Drug Enforcement	Water and Sewer Construction	
<b>Assets</b>						
Cash and investments	\$ 65,063	\$ 15,740	\$ -	\$ 8,332	\$ 87,588	\$ 176,723
Due from other governmental units	36,589	17,235	-	-	-	53,824
Due from other funds	-	-	150,000	-	-	150,000
Total assets	<b>\$ 101,652</b>	<b>\$ 32,975</b>	<b>\$ 150,000</b>	<b>\$ 8,332</b>	<b>\$ 87,588</b>	<b>\$ 380,547</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b> - Accounts payable	\$ 3,657	\$ 4,193	\$ -	\$ 5,738	\$ -	\$ 13,588
<b>Fund Balances</b> - Unreserved	97,995	28,782	150,000	2,594	87,588	366,959
Total liabilities and fund balances	<b>\$ 101,652</b>	<b>\$ 32,975</b>	<b>\$ 150,000</b>	<b>\$ 8,332</b>	<b>\$ 87,588</b>	<b>\$ 380,547</b>



# City of Bloomfield Hills, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2004

	Special Revenue Funds				Nonmajor Capital Projects Fund	
	Major Streets	Local Streets	Budget Stabilization	Drug Enforcement	Capital Projects Water and Sewer Construction	Total Nonmajor Governmental Funds
<b>Revenue</b>						
Federal sources	\$ -	\$ -	\$ -	\$ 1,102	\$ -	\$ 1,102
State sources	215,538	101,409	-	-	-	316,947
Tap fees	-	-	-	-	87,500	87,500
Interest income	65	16	-	-	88	169
Other	2,984	8,953	-	-	-	11,937
Total revenue	218,587	110,378	-	1,102	87,588	417,655
<b>Expenditures</b>						
Public safety	-	-	-	9,956	-	9,956
Public works	137,575	116,036	-	-	-	253,611
Total expenditures	137,575	116,036	-	9,956	-	263,567
<b>Excess of Revenue Over (Under)</b>						
<b>Expenditures</b>	81,012	(5,658)	-	(8,854)	87,588	154,088
<b>Other Financing Sources (Uses)</b>						
Transfers in	-	25,000	-	-	-	25,000
Transfers out	(25,000)	-	-	-	(78,504)	(103,504)
Total other financing sources (uses)	(25,000)	25,000	-	-	(78,504)	(78,504)
<b>Net Change in Fund Balances</b>	56,012	19,342	-	(8,854)	9,084	75,584
<b>Fund Balances - Beginning of year</b>	41,983	9,440	150,000	11,448	78,504	291,375
<b>Fund Balances - End of year</b>	<b>\$ 97,995</b>	<b>\$ 28,782</b>	<b>\$ 150,000</b>	<b>\$ 2,594</b>	<b>\$ 87,588</b>	<b>\$ 366,959</b>

September 10, 2004

Honorable Mayor and Members  
Of the City Commission  
City of Bloomfield Hills  
45 East Long Lake Road  
Bloomfield Hills, MI. 48304

Dear Mayor and Commission Members:

We have recently completed the audit of the financial statements of the City of Bloomfield Hills for the year ended June 30, 2004. In addition to our audit report, we offer the following comments and recommendations for your consideration:

#### **New Financial Statement Format**

During the current year, the City, along with many other communities in Michigan, was required to implement a new accounting pronouncement that has changed the format and content of your financial statements. The information that was previously provided in your financial statements has been retained in the new financial statement format. In addition, the following major items have been added:

- *Management Discussion and Analysis:* Management is now required to give an overview of the City's overall financial position and results of operations. This section provides an overview of the City's finances, as well as major projects worked on throughout the year.
- *Government-wide Financial Statements:* These additional statements adjust the normal fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the City from a longer term perspective (i.e. are today's taxpayers paying the full cost of today's services?). These statements show capital and infrastructure assets, as well as long term debt as part of the City's financial picture.
- *Budget Comparison:* A financial statement reader will now be able to view not only the actual revenue and expenditures of the City as compared to the amended budget, but also as compared to the original budget.

While getting used to the new format may take a while, the GASB hopes that the new model will improve comparability of financial statements among communities and will provide a better matching of the current year's revenue sources to the full cost of services provided during that year.

We would be happy to discuss any questions you may have about the new statements and how to best interpret the information provided.

## FINANCIAL RESULTS

For the year ended June 30, 2004, the City's General Fund fund balance was increased by \$354,627. The increase in fund balance occurred mainly due to additional revenue generated from nonrecurring sources., an additional water and sewer capital charge, and expenditure control. Overall, revenue increased from 2003 revenue by 12%. Of the 12% increase, approximately 6% was generated by the reclassification of the operating property tax levy used to fund debt service payments into the General Fund. In addition, the majority of this reclassified property tax levy was transferred out to the General Obligation Debt Fund to fund current year debt payments. The City's expenditures increased 5.4% from 2003. The City supported increased costs from continuing higher than expected retirement funding, required public safety overtime, reimbursable drain costs, engineering and building costs, and capital outlay with the increased non-recurring revenue, the additional water and sewer capital charge and other area expenditure controls. As discussed later in this communication in the State Shared Revenue and Property Assessment Cap comments, both the State's revenue shortfall and the limited growth in existing properties due to Proposal A will continue to have a negative impact on General Fund revenue.

### Internal Control Considerations

During the year's audit, we were required to adopt the Statement on Auditing Standards Number 99 (referred to as SAS 99) entitled *Consideration of Fraud in a Financial Statement*. SAS 99 requires new procedures regarding the auditor's consideration of the possibility of fraud in a financial statement audit. This resulted in new and additional testing in the conduct of this year's audit.

The Commission should be pleased to note that the extra inquiries and testing that was required did not reveal any material problem not already addressed by the City. However, during the additional procedures, we did note that the City does not track accumulated compensation balances (vacation and sick) on a consolidated spreadsheet for all employees. The City may want to utilize the current software's ability to track these balances through the payroll module. This would allow the City to accumulate all employees' vacation and sick time in one location and allow the City to designate one individual to verify all required procedures are being followed.

Additionally, we noted that the City operates with a variety of policies regarding the accumulation of sick, vacation or other compensation time. In some cases, written policies appear to be lacking. The non-union employees do not have a written policy regarding the accumulation of sick, vacation, or other compensations time. The City may want to consider a review of its policies to ensure that it has up to date and consistent policies in place in order to avoid confusion or disputes among different groups.

### **Prior Year Operational Suggestions**

While performing bank reconciliations in the fiscal year 2003, the City noted difficulties with their cash receipting system posting to the general ledger. Despite efforts by the Treasurer, these problems continued in fiscal year 2004. As a result of these problems, it was noted that the last few days of cash receipts were posting to the subsequent month in the general ledger. This resulted in the cash balance in the bank not reconciling to the cash balance on the general ledger. As suggested in the prior year, the City should continue to work with the vendor to solve this problem in order to ensure that accurate bank reconciliations are prepared every month. Until the problem is resolved, the City needs to clearly identify and support this difference in each monthly bank reconciliation. At June 30, 2004, the cash account was reconciled within \$6,000.

### **Other Accounting Recommendations**

- Bank reconciliations are being prepared; however, no one signs off or dates the reconciliations as preparer or reviewer. The Treasurer should sign off and date the reconciliation once it is prepared and the City Manager should do the same, once the reconciliations are reviewed.
- The City staff has been in the process of reconciling building bonds and engineering deposits. These liabilities are of a significant amount. The City should keep working to reconcile these accounts and the account detail.
- As in previous years, there was not a budget prepared for the Drug Forfeiture Fund or the Budget Stabilization Fund for fiscal year 2003/2004 budget. While the Budget Stabilization Fund had no activity in the current year, the City should budget for the General Fund and all Special Revenue funds. We feel that this would present a more complete financial picture and facilitate the City as it works toward specific fund balance goals.

## **LEGISLATIVE AND OTHER MATTERS**

### **State Funding Overview**

State shared revenue accounts for approximately 4% of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

### State Funding Overview (continued)

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to State's tax structure, we continue to urge the City to be very conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

In addition, updated information can be obtained from the Department of Treasury's web site or by calling the Office of Revenue and Tax Analysis at (517) 373-2697. We will continue to update the City as developments occur

### Property Taxes

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2003	1.5%	1998	2.7%
2002	3.2%	1997	2.8%
2001	3.2%	1996	2.8%
2000	1.9%	1995	2.6%
1999	1.6%	1994	3.0%

The increases in the taxable value of property for 1999, 2000 and 2003 were the lowest increases since the 1994 adoption of Proposal A. The 2003 inflation factor is being used for property taxes levied in the City's year ended June 30, 2004. Property taxes are the City's largest source of General Fund revenue. However growth in existing property taxes can be significantly limited due to Proposal A. The 2004 inflation factor is 2.3%.

**Property Taxes (continued)**

In addition, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A, the City was no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

**Municipal Finance Act Revisions - Reminder**

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities are now required to submit a filing (Municipal Qualifying Statement) once a year with the Michigan Department of Treasury. This filing can be done online with the Michigan Department of Treasury. The old ten-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for debt issuances. The current filing is due within six months of the City's year-end which means that the City of Bloomfield Hills' filing is due December 31, 2004 and is good for one year thereafter.

We would like to thank the Commission for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

**PLANTE & MORAN, PLLC**



Leslie J. Pulver



Kathryn J. Kercorian



Pamela L. Jadach